



SHAPES FIRST
SHAPING UP FOR THE FUTURE

The Association of Foreign Exchange and
Payment Companies

Safeguarding Customers' Funds

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Cost benefit analysis...

“We know the 100% compliance assumption in our CBA may not necessarily be accurate and have provided updated sensitivity analysis to account for this. This analysis finds that compliance among failed payments firms may need to be 53% for our proposals to break even, based on the anticipated shortfalls and delays in returning funds. We expect that our proposals will help to address non-compliance in the industry through increasing oversight and introducing audit requirements for more firms. In 2016 we introduced an FRC audit standard for CASS firms. There was initially a large increase in adverse audits to 142 (13%) but this has fallen significantly to 64 (6%) in 2024.” [Source: FCA PS 25-12, page 43]

Timeline

- Policy Statement PS25/12 published: 7 Aug 2025.
- Go-live: 7 May 2026 (nine-month implementation).
- Post-Repeal Regime (statutory trust/CASS-style): not proceeding for now; FCA to review after a full audit cycle under the Supplementary Regime.

What's new?

1. Daily CASS style safeguarding reconciliations on each business day (not required on weekends, UK bank holidays, or days relevant foreign markets are closed).
2. Resolution pack (CASS 10A) with documents retrievable within 48 hours for administrators and the firm.
3. Monthly regulatory return with detailed safeguarding data (balances, methods, discrepancies, use of non-standard method, etc.).
4. Annual safeguarding audit by a qualified auditor for APIs/EMIs unless the firm has not safeguarded over £100,000 at any time in the previous 53 weeks.
5. Non-standard internal reconciliation allowed only with documented rationale and an independent auditor's reasonable-assurance report.
6. E-money vs unrelated payment services: must be safeguarded and reconciled separately; separate data in returns.
7. Strengthened third-party due diligence (banks, custodians, insurers/guarantors) and insurance/guarantee payout conditions (no restrictions other than insolvency certification).
8. Contingency: 3 months before an insurance/guarantee expires, be ready to switch to segregation if no replacement is in place.

Key focus points (1)

1. Books, Records & Reconciliations

Daily internal & external reconciliations (each business day).

- Internal: compare safeguarding requirement (sum of all client balances incl. credits; deduct executed payments/redeemed e-money/fees due) vs safeguarding resource (bank account balances + segregated but not in RF accounts + relevant assets + insurance/guarantee).
- External: compare internal records to third-party statements (banks/custodians).
- Discrepancies: identify and resolve promptly; top up with own funds if needed when relevant funds cannot be used.
- Non-standard method: permitted with documented rationale and independent auditor report; any material change requires fresh auditor report.
- Segregation by product: reconcile e-money and unrelated payment services separately.

What to evidence: Reconciliation workpapers; data sources; D+1 comparisons; discrepancy logs; top-up approvals; timestamped retrieval paths.

Key focus points (2)

2. Resolution Pack (CASS 10A)

Purpose: enable a swift, orderly return of funds on insolvency.

Retrievability: administrators and the firm must be able to retrieve each document within 48 hours. Core contents (at minimum):

- Master index with retrieval paths.
- Institutions appointed for receipt/holding of relevant funds and relevant assets (incl. agents/distributors).
- Executed agreements (and side letters), incl. acknowledgement letters for safeguarded accounts.
- Insurance/guarantee providers & executed policies/guarantees.
- Agents/distributors register.
- Internal & external reconciliation records (latest sets).
- Policies & procedures: safeguarding, reconciliations, selection/appointment of third parties, records & accounts.
- Named responsible individuals; board reporting; notification triggers.

Good practice: mirror CASS 10A retrieval list (flag items marked “immediate”).

Key focus points (3)

3. Monitoring, Reporting & Audit

- Monthly safeguarding return (RegData): balances, peaks, method (segregation/insurance/guarantee), non-standard method usage, discrepancies, and separate data for e-money vs unrelated payment services.
- Annual safeguarding audit by a qualified auditor (reasonable assurance) for APIs/EMIs unless below £100k relevant funds at any time in the previous 53 weeks.
- No limited-assurance audit required for firms holding no relevant funds.
- Board MI: reconciliation KPIs, discrepancy ageing, top-ups, third-party DD status, insurance/guarantee expiry horizon, audit findings.

Common pitfalls and red flags

- Treating guidance as optional; policies not aligned to rules.
- Single reconciliation; not separating e-money vs unrelated payment services.
- Weak discrepancy management; missing top-up evidence or delayed remediation.
- No executable resolution pack; cannot retrieve within 48 hours.
- Insurance/guarantee terms restrict payout; no 3-month contingency.
- Over-reliance on vendors without documented non-standard method approvals and auditor report.
- Unprepared for the monthly return granularity (data not captured).

What does good look like?

- **Governance & Ownership:** clear senior management sponsor; RACI for safeguarding operations, finance, treasury, legal, compliance, internal audit.
- **Data & Systems:** source-controlled reconciliation logic; clock sync; immutable logs; automated alerts; evidence repositories.
- **Reconciliations:** daily runbook, D+1 comparison, thresholds, discrepancy SLAs, auto top-up workflow, segregation by product.
- **Resolution Pack:** living artefact; quarterly retrieval drill; completeness checks; contract database and acknowledgement letters current.
- **Reporting & Audit:** dry-run monthly return; auditor scoping memo; pre-audit readiness; Board dashboard.
- **Third-Party Oversight:** due-diligence pack, acknowledgements, exit/contingency plans.



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